

# **THE OFFICE OF REGULATORY STAFF**

## **DIRECT TESTIMONY AND EXHIBIT**

**OF**

**LEIGH C. FORD**

**MAY 3, 2010**



**DOCKET NO. 2009-489-E**

**Application of South Carolina Electric & Gas  
Company for Increases and Adjustments in  
Electric Rate Schedules and Tariffs**

**DIRECT TESTIMONY OF LEIGH C. FORD**

**FOR**

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**DOCKET NO. 2009-489-E**

**IN RE: APPLICATION OF SOUTH CAROLINA ELECTRIC & GAS COMPANY  
FOR INCREASES AND ADJUSTMENTS IN ELECTRIC RATE  
SCHEDULES AND TARIFFS**

**Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND  
OCCUPATION.**

**A.** My name is Leigh Ford. My business address is 1401 Main Street, Suite 900, Columbia, South Carolina 29201. I am employed by the State of South Carolina as an Electric Specialist in the Electric Department for the Office of Regulatory Staff ("ORS").

**Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND  
EXPERIENCE.**

**A.** I received a Bachelor's Degree in Communications from Lenoir-Rhyne University in 2002. Prior to my employment with ORS I was a Field Service Representative with the South Carolina Budget and Control Board. I joined ORS in November 2007.

**Q. HAVE YOU PREVIOUSLY APPEARED BEFORE THIS COMMISSION?**

**A.** Yes, I have. I testified before this Commission in a fuel proceeding, and I also presented an allowable ex-parte briefing regarding renewable resources and their role in South Carolina's electric generation portfolio.

1 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**  
2 **PROCEEDING?**

3 **A.** The purpose of my testimony is to summarize the Electric Department's  
4 examination of certain accounting and pro forma adjustments in South Carolina  
5 Electric & Gas Company's ("Company" or "SCE&G") Application for a general  
6 increase in its electric rates and charges.

7 **Q. PLEASE EXPLAIN THE ADJUSTMENTS YOUR TESTIMONY WILL**  
8 **ADDRESS.**

9 **A.** My testimony will address the Company's proposed adjustments  
10 pertaining to Wages, Benefits and Payroll Taxes; Storm Insurance Premiums;  
11 Tree Trimming; Fuel Inventory; Williams Station deferred expenses; Preliminary  
12 Survey and Investigation ("PSI") costs and ORS's adjustment of the Storm  
13 Reserve Fund. My testimony will also address the proposed pilot Weather  
14 Normalization Adjustment ("WNA") program and extreme weather adjustment.

15 These adjustments, more fully discussed below, were provided by the  
16 ORS Electric Department to the ORS Audit Department and can be seen in Audit  
17 Exhibit SGS-2 of ORS witness Sharon Scott.

18 **Q. PLEASE EXPLAIN THE ADJUSTMENT PERTAINING TO WAGES,**  
19 **BENEFITS AND PAYROLL TAXES.**

20 **A.** The Company's Adjustment #1 adjusts wages, benefits and payroll taxes  
21 to current levels as of the end of the test year. The effect of this adjustment is to  
22 increase total O&M expenses by \$7,126,236 and other taxes (payroll taxes) by  
23 \$505,805 for the test year. Due to the Company stating on numerous occasions



1 expected from hurricanes if landfall occurred in SCE&G's service territory. In  
2 Order No. 2007-680, the Commission allowed the storm damage T&D premium  
3 to be withdrawn from the Storm Reserve Fund until the next retail rate case after  
4 Docket No. 2007-229-E.

5 Since the policy's inception in 2007, the premium and policy fees have  
6 increased by almost 15% and the deductible has increased by \$5 million. The  
7 current policy, which expires July 1, 2010, has a \$3,060,000 annual premium and  
8 SCE&G was charged an additional \$60,000 for a management fee and a study.  
9 The policy deductible increased to \$100 million per storm and the maximum  
10 payout is \$70 million per year regardless of how many storms affect SCE&G's  
11 service area in that year.

12 ORS recommends the Company be approved to withdraw the current  
13 actual amount of the policy premium from the Storm Reserve Fund excluding any  
14 fees or study costs. Because the premiums for future policies are unknown, ORS  
15 proposes the Company be approved to withdraw annual premiums not to exceed  
16 the current premium of \$3,060,000. ORS also proposes that SCE&G file an  
17 annual report with the Commission, with a copy to be provided to ORS, when the  
18 storm insurance policy is renewed. This annual report should address policy  
19 changes and detail the premium, deductible, and coverage amounts.

20 ORS's recommendation to eliminate the Company's Adjustment #21 for  
21 storm insurance premiums from base rates is reflected in ORS Audit witness  
22 Scott's Adjustment #13.

**Q. PLEASE EXPLAIN ORS'S ADDITIONAL ADJUSTMENT RELATING TO STORM INSURANCE PREMIUMS DRAWN FROM THE STORM RESERVE FUND.**

**A.** ORS recommends an adjustment to the Storm Reserve Fund to replenish the over-withdrawal of premiums. In Order No. 2007-680, the Commission allowed SCE&G to withdraw the annual storm insurance premium of \$2.72 million from the Company's Storm Reserve Fund. However, ORS's review shows that the Company has withdrawn premiums in excess of the approved \$2.72 million. ORS recommends SCE&G increase the Storm Reserve Fund balance by \$407,000 to account for the over-withdrawal of premiums. This adjustment is addressed by ORS Audit witness Scott and is reflected in Audit exhibit SGS-4.

**Q. PLEASE EXPLAIN ORS'S ADJUSTMENT TO THE STORM RESERVE FUND.**

**A.** ORS Audit witness Scott's Adjustment #3 reflects ORS's recommendation to suspend the collection of the Storm Reserve Fund thereby decreasing the Company's revenue requirement by \$6,399,812.

In Docket No. 1995-1000-E, the Company proposed a Storm Reserve Fund which would help offset the potential financial impact of a major hurricane or other catastrophic occurrence. This reserve can be applied to offset incremental storm damage costs in excess of \$2.5 million in a calendar year. The fund was originally capped at \$50 million but was increased to \$100 million in Order No. 2007-680. During the test year ratepayers contributed \$6,399,812 to the fund and as of March 31, 2010, the reserve had a balance of more than \$45 million.

1           In the past few years the fund has been used to not only pay for storm  
2           restoration costs, but also for tree trimming and storm insurance premiums.  
3           Exhibit LCF-1 details the amounts contributed to and withdrawn from the Storm  
4           Reserve Fund since its inception in 1996.

5           As shown in Exhibit LCF-1, the historical withdrawal of storm restoration  
6           costs – for which this reserve was designed – illustrates that such withdrawals  
7           have had minimal impact on the reserve balance.

8           ORS reviewed the Company's *Hurricane and Ice Storm Loss and Reserve*  
9           *Solvency Analysis*, which estimates annual damage to SCE&G's T&D assets from  
10          hurricanes to be \$7.8 million per year. It should be noted that this is an average of  
11          all storm damage over many years and is not expected to occur every year. If  
12          damages were \$7.8 million a year, the reserve fund is sufficient to cover more  
13          than three years of these costs based on the estimated year-end balance, approved  
14          withdrawals and the Company's self-imposed deductible. However, historically  
15          the Company withdrew an average of less than \$1.3 million a year in storm  
16          restoration costs. In this scenario the reserve fund is sufficient to cover more than  
17          eight years of these costs.

18          Taking into consideration, the current reserve balance of more than \$45  
19          million and the Company's yearly average withdrawal related to storm restoration  
20          costs, ORS submits that suspending Storm Reserve Fund collections will assist  
21          ratepayers while minimally impacting the reserve. Therefore, ORS recommends  
22          decreasing the revenue requirement by \$6,399,812, which is reflected in ORS

1           Audit witness Scott's Adjustment #3. This adjustment is in addition to the  
2           replenishment of the reserve for the over-withdrawal of premiums.

3   **Q.   PLEASE EXPLAIN THE ADJUSTMENT RELATED TO TREE**  
4   **TRIMMING.**

5   **A.**           Company Adjustment #24 proposes increasing total test year O&M  
6           expenses by \$6,612,809 for tree trimming and vegetation management ("tree  
7           trimming"). The Company currently has almost \$13.2 million in O&M expenses  
8           in base rates for tree trimming and proposes increasing that amount to almost \$20  
9           million per year.

10           ORS recommends removing the adjustment to increase tree trimming  
11           expenses because the Company has provided sufficient data stating it will be on  
12           the desired tree trimming cycle next year using funds previously approved by the  
13           Commission. Additionally, SCE&G stated that due to accelerated efforts, the  
14           Company expects reductions in future maintenance costs and extended tree  
15           trimming cycles.

16   **Q.   PLEASE PROVIDE A HISTORY OF EXPENDITURES RELATED TO**  
17   **TREE TRIMMING.**

18   **A.**           SCE&G requested an Accounting Order authorizing the Company to  
19           withdraw from the Storm Reserve Fund a maximum of \$9 million between 2008  
20           and 2009 to offset incremental tree trimming expenses. See Docket No. 2008-  
21           416-E. In its request, the Company stated that these additional funds would allow  
22           for the expansion of its Distribution Vegetation Management Program ("DVMP")  
23           and to maintain its Transmission Vegetation Management Program ("TVMP"),



1 both of which were implemented in 2006. ORS did not object to this request, and  
2 the Commission approved this Accounting Order in February 2009. According to  
3 the Company's updated report as of September 30, 2009, SCE&G had completed  
4 89% of the planned tree trimming and vegetation management along its T&D  
5 lines.

6 In October 2009, the Company requested that the Commission issue a  
7 second Accounting Order authorizing the withdrawal of an additional \$6.8 million  
8 from the Storm Reserve Fund during the calendar year 2010 to accelerate tree  
9 trimming programs. ORS did not object to this request and the Commission  
10 approved this Accounting Order in December 2009 in Order No. 2009-845. This  
11 second Accounting Order allowed SCE&G to spend – through 2010 – \$15.8  
12 million above the almost \$13.2 million already in base rates for tree trimming.

13 **Q. PLEASE EXPLAIN ORS'S RECOMMENDATION TO ELIMINATE THE**  
14 **COMPANY'S ADJUSTMENT FOR TREE TRIMMING.**

15 **A.** According to SCE&G, the Company should be on its planned five-year  
16 tree trimming cycle within a year. In this proceeding, the Company states it  
17 previously dropped to a seven-to-eight year tree trimming cycle partially due to  
18 the number of times that SCE&G and contract crews were diverted to assist with  
19 hurricane and winter storm recovery efforts throughout the Southeastern United  
20 States. However, Company witness Marsh states in direct testimony that because  
21 of the recent Accounting Orders, the "additional funding has allowed the  
22 Company to make significant progress in restoring its tree trimming cycle to the  
23 five-year goal."

1           In the Company's second request for an Accounting Order in Docket No.  
2           2008-416-E, the application states that "SCE&G anticipates that the increased  
3           funding for its TVMP and DVMP will provide the Company with an opportunity  
4           to reach its goal of placing all its transmission and distribution circuits on the  
5           optimal five-year vegetation management cycle by 2011...." Additionally,  
6           SCE&G stated that it expects "the application of foliar herbicide will reduce  
7           future maintenance costs and extend tree trimming cycles." See Docket No. 2008-  
8           416-E.

9           Therefore, ORS recommends eliminating the Company's Adjustment #24  
10          for tree trimming which is reflected in ORS Audit witness Scott's Adjustment  
11          #16. Removing this adjustment has no impact on the \$13.2 million already in  
12          base rates for tree trimming. ORS Audit witness Scott made an additional  
13          adjustment to reduce test year expenses to the \$13.2 million level included in base  
14          rates.

15   **Q.   PLEASE EXPLAIN THE ADJUSTMENT PERTAINING TO FUEL**  
16   **INVENTORY.**

17   **A.**In Company Adjustment #27, SCE&G proposes increasing the rate base  
18           for fuel inventory by \$26,615,328 for the test year to reflect an increase of the  
19           value of the coal inventory and to reflect average forecasted coal inventories for  
20           the period October 2009 to November 2011.

21           ORS disagrees with this adjustment and proposes reducing the rate base  
22           for coal inventory in this proceeding to reflect normal inventory levels. ORS's  
23           adjustment is consistent with prior Commission decisions regarding coal

1 inventory balances. In Order No. 2005-2, the Commission recognized SCE&G's  
2 low coal inventory, and approved a rate base increase to reflect normal inventory  
3 levels during the test year and stated that:

4 Sound regulatory policy allows for the normalization of  
5 expenditure items that do not reflect typical test year activity.  
6 As explained by the South Carolina Supreme Court, the  
7 Commission must adjust test year data when an unusual  
8 situation exists that shows the test year expenditures are not  
9 typical. *Parker v. S.C. Public Serv. Comm'n*, 313 S.E.2d 290,  
10 292 (S.C. 1984).

11  
12 ORS recommends reducing the Company's coal inventory to reflect  
13 normal inventory levels because the test year inventory is not typical. Company  
14 witness Byrne stated in his direct testimony that SCE&G strives to maintain a  
15 yearly average coal inventory of 708,333 tons.

16 However, due in part to the effect of low natural gas prices on SCE&G's  
17 use of coal generation, the Company had an average inventory of 944,191 tons  
18 during the test period, which exceeds the target annual average by 235,858 tons.  
19 ORS proposes reducing rate base by \$25,887,815 to reflect the Company's yearly  
20 average coal inventory, which is set forth in ORS Audit witness Scott's  
21 Adjustment #69.

22 **Q. PLEASE EXPLAIN THE ADJUSTMENT RELATED TO WILLIAMS**  
23 **STATION DEFERRED EXPENSES.**

24 **A.** In Adjustment #18, SCE&G proposes to defer the increase in purchased  
25 power associated with the Williams Environmental project until recovery is  
26 provided for in Phase 2 of their request.

SCE&G, pursuant to Order No. 2008-741, is currently deferring the incremental purchased power expense associated with the scrubber at Williams Station. This deferral began in November 2009 when the Flue Gas Desulfurization pond was placed in service and increased in February 2010 when the scrubber was placed in service. Based on information SCE&G provided to ORS, through July 2010, the estimated deferral balance is \$8,479,753. ORS is not proposing a phase-in of rates but recommends amortizing these expenses over the 30 year life of the scrubber, rather than 10 years as requested by the Company, resulting in an increase in purchased power of \$282,658. This is reflected in ORS Audit witness Scott's Adjustment #11.

**Q. PLEASE EXPLAIN THE ADJUSTMENT RELATED TO PSI COSTS.**

A. In Company Adjustment #33, SCE&G proposes amortizing \$947,829 in PSI costs over three years, resulting in an O&M increase of \$315,943. These costs were incurred as the Company researched means to comply with proposed regulations that were never implemented. ORS reviewed these costs and found them appropriate. However, to provide consistency in amortization periods, ORS recommends amortizing these costs over ten years instead of three. This decreases O&M expenses to \$94,783, which is reflected in ORS Adjustment #23.

**Q. PLEASE EXPLAIN THE PROPOSED WEATHER NORMALIZATION PROGRAM.**

A. In the Stipulation between ORS and SCE&G, the parties agree that the Company may implement a pilot weather normalization adjustment ("WNA") mechanism for a twelve-month period to mitigate extreme weather related

1 fluctuations in customer's monthly bills. The WNA pilot program, if approved,  
2 will apply only to residential and small general service customers receiving  
3 electric service under rate schedules 1, 6, 8 and 9 as these rates are the most  
4 weather sensitive on SCE&G's system.

5 **Q. HOW WILL THE WNA BE CALCULATED?**

6 **A.** Under the WNA, certain residential and small general service customers'  
7 energy rates may be adjusted downward or upward monthly to reflect normal  
8 weather conditions. Normal weather conditions is defined as the average  
9 temperature over the most recent fifteen years for which data is available, and  
10 SCE&G will use the historical temperature record for the Columbia and  
11 Charleston airports to calculate normal weather conditions for each location.

12 **Q. HOW WILL THE EFFECT OF THE WNA BE MONITORED?**

13 **A.** So long as the pilot program is in operation, SCE&G will file monthly  
14 reports to the Commission, with copies to be provided to ORS, which show the  
15 current month and cumulative effect of the WNA. At the conclusion of the  
16 twelve-month WNA pilot program, the Company will file a comprehensive report  
17 with the Commission, with a copy to be provided to ORS, showing the aggregate  
18 impact and conclusions for the future of the program. The Company will  
19 maintain its books and records in sufficient detail to enable the Commission and  
20 ORS to determine the revenue impact of the WNA mechanism by rate schedule.

21 After the comprehensive report is filed, either Party may petition the  
22 Commission to modify or terminate the WNA. The WNA shall remain in effect  
23 until the Commission acts on these petitions.

1   **Q.     PLEASE EXPLAIN THE PROPOSED CREDIT ADDRESSED IN THE**  
2       **STIPULATION.**

3   **A.**           In consideration for ORS agreeing to a stipulation of a 10.7% return on  
4       common equity and a pilot WNA program, the Company has agreed to provide a  
5       one-time credit of \$25 million. If the pilot WNA program is approved, the credit  
6       will be applied via a decrement rider that will remain in place for a twelve-month  
7       period or until all credits have been exhausted. The decrement rider automatically  
8       terminates when the credits are exhausted. ORS witness Watts' testimony  
9       addresses the amount of this decrement.

10  **Q.     DO YOU HAVE ANY CLOSING COMMENTS REGARDING SCE&G'S**  
11  **EXPENSES?**

12  **A.**           Yes, I do. ORS is not proposing that this Commission set rates or expense  
13       levels on the basis of information filed by the various utilities in the FERC Form  
14       1. However, a comparison between SCE&G and other utilities of the O&M  
15       expenses in FERC Form 1, that is, all expenses excluding fuel and production  
16       expenses, causes a heightened concern by ORS. In light of the expense  
17       comparisons, ORS will monitor future filings and expense levels of SCE&G.

18  **Q.     DOES THIS CONCLUDE YOUR TESTIMONY?**

19  **A.**           Yes, it does.

## Storm Reserve Fund From Inception (1996) to Current

Year	Beginning Balance	Collections	Storm Charges	Insurance Premiums	Tree Trimming <sup>1</sup>	Ending Balance
1996	\$ -	\$ 4,204,754	\$ -	\$ -	\$ -	\$ 4,204,754
1997	4,204,754	4,646,041	-	-	-	8,850,795
1998	8,850,795	5,209,754	-	-	-	14,060,549
1999	14,060,549	5,117,003	(3,895,456)	-	-	15,282,096
2000	15,282,096	5,435,216	(152,213)	-	-	20,565,099
2001	20,565,099	5,063,141	-	-	-	25,628,240
2002	25,628,240	5,926,832	-	-	-	31,555,072
2003	31,555,072	5,762,007	-	-	-	37,317,079
2004	37,317,079	6,130,090	(10,920,633)	-	-	32,526,536
2005	32,526,536	6,245,516	(307,008)	-	-	38,465,044
2006	38,465,044	5,740,360	(89,851)	-	-	44,115,553
2007	44,115,553	6,227,763	-	(1,360,001)	-	48,983,315
2008	48,983,315	6,222,074	(2,542,236)	(2,801,197)	(1,953,239)	47,908,717
2009	47,908,717	6,393,908	-	(3,046,197)	(6,995,375)	44,261,053
YTD 3/31/2010	44,261,053	1,661,464	-	(690,000)	-	45,232,517
<b>Total Since 1996</b>	<b>\$</b>	<b>\$ 79,985,923</b>	<b>\$ 17,907,397</b>	<b>\$ 7,897,395</b>	<b>\$ 8,948,614</b>	
<b>Test Year Total</b>	<b>\$</b>	<b>\$ 6,399,812</b>	<b>\$ 865,735</b>	<b>\$ 2,977,394</b>	<b>\$ 1,953,239</b>	

<sup>1</sup> Does not include the \$6.8 million approved to be withdrawn in 2010.